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IN THE SUPREME COURT OF THE STATE OF IDAHO
2006 Opinion No. 44

Docket No. 31042

The case involves a contract between Independence and Hecla relating to Hecla's operations on mining claims it leased from Independence. Under the contract, Hecla is to explore, develop and mine the Gold Hunter deposit. Hecla is entitled to recoup all of its expenses incurred in doing so, and any profit remaining is to be distributed between Hecla and Independence. The contract vests Hecla with the exclusive right to manage the mining operation, but does give Independence the right to be consulted and offer advice on certain projects.

The dispute arose after Hecla mined Gold Hunter while metal prices were low, such that there were no profits to be shared with Independence. Independence, concerned

its assets were being depleted, filed suit. Independence claimed (1) Hecla breached an implied covenant to operate the mine prudently; (2) Hecla breached an express provision requiring it to consult with Independence before undertaking mining operations; and (3) Hecla committed waste against Gold Hunter by operating the mine unreasonably and in bad faith. The district court concluded Hecla did not breach an express or implied term of the contract. Also, the court determined Independence failed to show Hecla acted unreasonably or in bad faith. As a result, the district court entered judgment for Hecla and Independence timely appealed.

The Supreme Court affirmed the dismissal of Independence's claim for breach of an implied duty to operate prudently. The Court rejected Independence's characterization of the implied term, concluding instead that prior cases did not establish a new "duty to mine prudently," but only applied the well-established implied duty of good faith and fair dealing. The Court observed an implied duty may not be applied to override an express provision of the contract, however, so Independence's assertion Hecla must cease mining unless and until Independence receives a profit must be rejected because such an implied term contradicts the exclusive authority expressly vested in Hecla. But even if the implied covenant did not contradict an express term of the contract, the Supreme Court concluded the district court's determination Hecla's decisions to mine and continue mining Gold Hunter despite low metals prices were reasonable was supported by substantial and competent evidence.

Next, the Supreme Court agreed with the district court's decision Hecla did not materially breach an express provision of the contract when it did not consult with Independence prior to commencing the project. The Court noted that as the contract did not require Hecla to follow any advice offered by Independence, no material breach occurred.

Finally, the Supreme Court rejected Independence's claim for waste because the Court agreed with the district court that Hecla did not act unreasonably or in bad faith. Also, the Court concluded Hecla did not commit waste against Gold Hunter by doing an activity contemplated by the contract – mining Gold Hunter.